


How to Find and Use Supply and Demand in Your Forex Trading



Forex School Online



For a trader the live price action is super important because we need to be able to read the price as it is being printed in live time.


As a price action trader you have a clear insight into the market. Using your price action you are able to see the behavior of the market and what traders are doing in real-time through your live price as it is being printed.

Supply and demand in the Forex markets is a super important factor and with your price action charts you also have the ability to see supply and demand through your charts. As previously discussed in [other trading lessons on the site](#); the basic reason price moves is because of traders buying and selling.

Price does not move for any other reason. There are plenty of indirect reasons why price may move or reasons that may go into why a trader decides to trade the way they do, but the reason price moves is because of buying and selling and more importantly because of “Supply and Demand”.

How Does Does Supply and Demand Trading Work

As I cover in great depth in the recent trading tutorial [To be a Successful Trader – Forget the News](#), traders move the markets and whilst traders can change their minds



and be swayed on what way they are going to trade by many things, ultimately it is the traders who are buying and selling that makes price go up and down.

It is this push and pull between supply and demand that makes price go up and down, not other factors such as news.


News may have an influence on what a trader is thinking and what way they trade, but it does not directly change the supply and demand balance.

The two biggest drivers of traders and thus the two biggest drivers of supply and demand in markets all around the world are fear and greed. These two emotions move markets around the world every single day. Fear and greed regularly take price to levels that rationally and logically we would think price would not or should not go to.

Fear and greed are the reason why market bubbles and crashes exist and the same reason why traders can make money and lose it in the same day.

The simple reason we can see price go to extreme highs or lows and we can see price go on massive runs when normally we would expect a retrace back is because of fear and greed and also the supply/demand equation.

When price is making a run higher and building in an up-trend price will normally build from a base and as the demand builds the trend can pick up. As more and more traders




recognize this trend, more and more traders pile into this market looking to make money from the move higher. This is the greed taking place.

No one wants to miss out on making money. Price will continue moving higher and more traders continue getting in the move and this is how the bubble is created.

Nobody wants to sell because they want to make as much profit as possible and to this point the trend has been clear cut and plain sailing moving higher. Obviously this is more greed kicking in.

At some point the uptrend bubble needs a trigger to burst and it often does not need much. This can be as little as traders taking profit and covering their long trades, but at some point the demand becomes weaker than the supply.

All the traders who have bought into this market are sitting on paper profits only and until they sell out they have not made a realised profit, so this market has a ton a potential orders that want to sell to realise profits, not to mention all the other people who have only just entered up near the top with other traders still piling into long trades with the uptrend trying to catch their share. Once a few traders start taking profit at the high, this market can start to reverse back lower.



Once that starts happening other traders can start to panic thinking that the market has changed and their emotions can quickly go from “greed” mode to “fear” mode and this is when traders quickly start selling out of their positions.

This is when a bubble can very quickly and abruptly burst.

This market can become like a fire sale with the traders sitting on profits trying to sell out and the traders who have entered near the top or just recently trying to get out to minimise the damage.

Before you know it, the demand is super weak and the market has gone very quickly from a strong demand situation in the uptrend, to now having a huge oversupply of traders wanting to sell with super low demand and price quickly falls lower. You can be aware of this and take advantage of it.

As one of the all-time great traders Warren Buffett says;

“Be Fearful When Others Are Greedy and Greedy When Others Are Fearful”

Price action trading and supply and demand is all about being contrarian and taking setups at the best times and from value areas in the market.

Being a contrarian trader is all about making sure that you are looking to find trades where the supply or demand levels are at their strongest, but also that you are also entering from **points of value and not at extreme highs or lows**. It is no good entering at a really strong level, but entering from an extreme high or low where the market is about to burst and reverse against you.



Supply & Demand is like a constant tug of war.



So What Really is Supply and Demand in Forex?

The online Dictionary.com explains that supply and demand situations are;

Supply is;


Economics, the quantity of a commodity that is in the market and available for purchase or that is available for purchase at a particular price.

Demand is;

Economics, the desire to purchase, coupled with the power to do so. The quantity of goods that buyers will take at a particular price.

In more basic terms, supply is a quantity of something that a market has and it is freely available for being purchased in the marketplace and the demand is just how much of that something that the market wants to purchase.

The two of these things are super important because they play a MASSIVE role in all markets and on the price that each market or Forex pair is going to be trading.




Supply and demand is a powerful force and it is at work in pretty much everything around us from the price we pay for our milk to how much we pay for our apples at the supermarket and this is why governments are so strict on making sure there remains competition in all sectors and one big company does not take over any one product and then be able to control all of the supply and demand and have control over all the pricing.

Supply and Demand Examples

Two everyday examples of supply and demand in action are with the recent Strawberry prices in Australia (I love strawberries). There has been a bumper crop this year with a massive oversupply meaning there is way too many.

This has forced the price down to prices that they were trading at 10 years ago because of the huge oversupply in berries. Because of the massive oversupply compared to the demand of the berries, it has meant that for most farmers to see any sales they have had to adjust their prices accordingly. This is how supply and demand affects price.

Compare that to when the cyclones came through and ripped the majority of the banana crops out. With a huge amount of banana crops out that year, it meant there was a huge undersupply of bananas in the market. People still wanted their bananas and this created an in-balance in the market.



Because there was now such a huge demand, but a small supply, the price went to over 10x their normal prices in that short space of time, which is a clear example of supply and demand in action.

This supply and demand in action with everyday goods is also how supply and demand controls the prices in the Forex markets. As the price of the bananas moves higher, people moved into their “panic” mode and they started to fill their shopping trolleys creating more demand.

As other people saw this rush they did the same thing and the demand grew stronger and the price moved even higher. In the markets the very same principles are at play with the very same human behaviors and mistakes and this is why price action is so good for analysing the markets because we can watch other traders behavior through the charts in [live time price action order flow](#).



Using Supply and Demand in Your Forex Trading

In the lesson [First Test Support/Resistance Price Action Trading Strategy](#) I explain why the first test back to the key daily level is normally the strongest and the reason for that is because when price breaks a key level, moves away and then comes back to test it for the first time, it will normally have the strongest or most amounts of supply or demand waiting for the re-test.

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This level will not always hold and be a price flip level, but this is where traders have to watch their price action and look to their charts to gauge what the supply and demand levels are like.

It is a traders job to not just be a pattern trader and look for patterns at levels, but it is the price action traders job to trade the price action and the price action story which means looking at the overall chart including when price moves back to the level and to gauge what the price action is doing? How is it behaving?

Does it have space to move into? Has price cut back and closed above the key level like I discuss in the trading lesson [The Secrets Traders Can Learn From Price Action](#).

Traders looking to make trades from the key supply and demand levels can use high probability reversal trigger signals such as the pin bar and engulfing bar, but the super important point is that these need to be played from the correct swing points.

The best method for hunting high probability reversal setups is to mark down the daily supply and demand levels on the charts and then use the same major level to either target trades on the daily time frame or other intraday time frames such as the 8 hour, 4 hour, 1 hour or possibly lower time frames always ensuring that the intraday setups are played during the optimum sessions of the UK and US trading sessions.



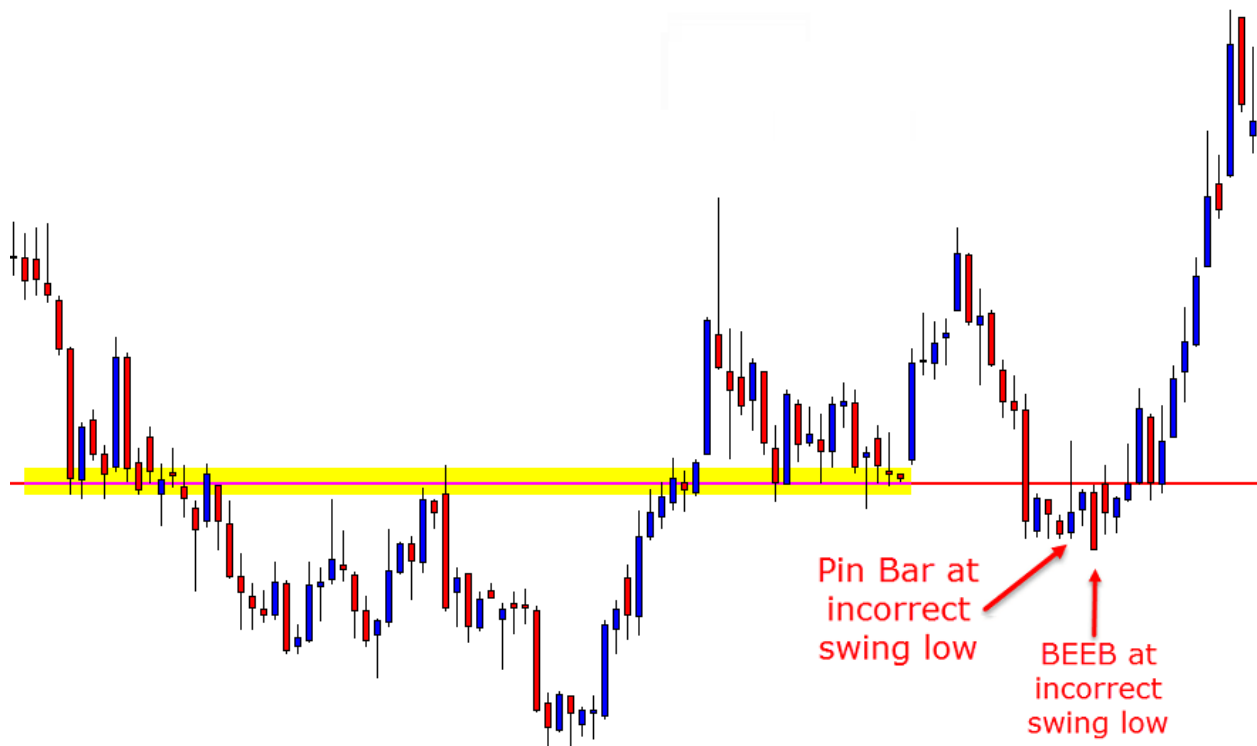
Pin Bar at swing low
making first test of new
support/demand level

SWING POINTS and SUPPLY/DEMAND Areas Are Not Always the Same Thing

Don't Make This Supply and Demand Forex Trading Mistake

A big mistake that traders tend to easily fall into is making reversal trades from the incorrect areas on the chart, both from the incorrect swing points and supply and demand levels. This can be an easy mistake to fall into, but can also be easily fixed with [the correct trading education](#) and practice.

Reversal trades are just that in that they are reversals and have to be played to “reverse”. Where this can sometimes be tricky for traders is that price can make a shallow or small retracement with a reversal trigger signal rejecting a supply or demand area. An example of this scenario is below where both a pin bar and bearish engulfing bar (BEEB) are at an extreme low and would be at an extremely dangerous area to take short trades from.



As the example above shows; both the pin bar and BEEB are at a swing low and by taking a short trade from this pin bar and engulfing bar it would be shorting at a low or selling low and hoping for price to move even lower. As with any business in life, Forex is the same in that to make money you need to buy cheap and at sell at a higher price to make money or if short selling sell high and buy back lower.


Don't Mix These Up!

Where traders can often get confused and mix up both supply/demand levels and trying to ensure that they look for their trades from the correct swing points is when reversal trades form at a supply or demand point on the chart, but they DO NOT form at a correct swing point.

There is a difference and traders need to take note of this. **Just because a reversal trigger signal forms rejecting a supply or demand level, it does NOT mean it has formed at a correct swing point.** A supply/demand level and a swing point are two separate things.

We are looking for the times when price has rotated back higher or lower into a “value” area or a supply/demand area and price is also at a swing point. What we are looking to avoid is the situation where price is in the chart above where price fires off a pin bar or another reversal signal at an extreme high or low where price has not made a rotation or retracement.

Traders can watch the daily [Swing Trading | Price Action Trading Commentary](#) where I post daily setups and commentary of the market to see how this works in the live market each day.



When entering from supply or demand levels using reversals trigger signals it is even more important that this rule is followed of entering from the correct swing highs or lows because if entering from an incorrect swing point it will mean more often than not that you are entering at the extreme high or low where the big money is often looking to exit the market after a big move has been made.

As the chart shows below; after making a strong move lower there would be **some big money in this move** that would be sitting on paper profits or in other words; profits that until they close their trades are only seen on paper.

After this large move lower, they would be looking to cover some of their position and take profit and this is often why at the end of these long strong moves either higher or lower, small rejection candles form such as small pin bars or rejection candles.

These are fake signals and why traders need to be careful trading reversal trigger signals from extreme tops or bottoms that have not retraced into swing points.

After these large moves, the big money will look to take some profit and this will cause the market to pause or retrace back higher slightly and possibly create a small pin bar, but by entering the market at this time you are entering when the big guys are just getting out.

This is also the period when price will normally rotate back into a value area and back into a key supply and demand area and give you a high probability trade to enter from a correct swing high or low rather than having to enter from the extreme high or low.

What normally happens after the profit taking has stopped is that price will roll back over and continue with the momentum in the same direction that price was trading in previous to the pause or retrace and if there was a small pin bar or rejection candle they will normally get run over.





To Finish Up

The Forex and Futures markets are no different than any other market or any other everyday goods in that supply and demand plays a huge role in the outcome on where the price is and where the price will go in the future.

For all the information the market analysts write about the fundamentals and certain news announcements, including who is going to be making what announcements etc, the truth is, where price goes all comes down to who wins the supply and demand battle. I really hope you have enjoyed this trading lesson and can use the information in your trading.

Safe trading,

Johnathon